

November 2008

INFORMATION

Des Moines District Office

210 Walnut Street, Rm. 749
Des Moines, IA 50309-2186
(515) 284-4422
(515) 284-4572 (Fax)
www.sba.gov/ia

Joseph M. Folsom
District Director
(515) 284-4026
joseph.folsom@sba.gov

Cedar Rapids Branch Office

2750 1st Ave. NE – Ste. 350
Cedar Rapids, IA 52402
(319) 362-6405
(319) 362-7861 (Fax)

Dennis Larkin
Branch Manager
(319) 362-6405 ext. 2020
G.D.Larkin@sba.gov

Standard 7(a) Loan Guaranty Processing Center

6501 Sylvan Road
Citrus Heights, CA 95610
Phone: (916) 735-1515
ext. 4368
Contact: Dusty Rhoads
Fax: (916) 930-2180

OR

262 Black Gold Blvd.
Hazard, KY 41701
Contact: Clarence Woods
Phone: 606-436-0801
ext. 229
Fax: (606) 435-2400
E-mail:
loanprocessing@sba.gov

Fresno Servicing Center

Fresno, CA
(559) 487-5650
(559) 487-5803 Fax

Liquidation & Purchase Center

Herndon, VA
(703) 487-9283
(202) 481-4674 Fax

504 & PLP Processing Center

6501 Sylvan Road
Citrus Heights, CA 95610
(916) 930-2463 or 930-2460
(916) 930-2160 FAX

*All SBA programs and
services are provided on
a nondiscriminatory basis.*

Base Rate Options, EIDLs, and Patriot Express

Dear Lender:

We are pleased lending activity this fall has held up well when compared to last year at this time. It is a reflection of the continued use of SBA's financing tools by you our lending partners in this economically challenging times to assist your small business customers.

This past week SBA announced two changes to the 7(a) program designed to facilitate the flow of capital for you our lending partners. A base rate tied to LIBOR has been added as an option, and improved flexibility in accessing the secondary market for SBA loans through Weighted Average Coupon pools has been added. Please take a moment to review the enclosed article and attached Administrative Notice for additional details.

Though the deadline for filing applications for physical disaster losses has passed, businesses impacted by this past summer's storms in the designated counties may still apply for economic injury disaster loans (EIDL). Businesses need not have suffered physical losses to be eligible, but they must have been impacted by the loss of revenues due to the natural disaster. Additional information may be found on our disaster assistance web site www.sba.gov/services/disasterassistance/ind ex.html. The deadline for filing an application, which can be done online, is February 27, 2009.

We passed another milestone this week in our disaster response topping \$250 million in loan approvals. As of November 23rd 3,111 homeowners and renters received approvals of \$157,291,300 and 665 businesses and non profit organizations received \$92,821,900.

This past week I received two separate inquiries from business owners/entrepreneurs from two different communities asking for assistance in finding an approved Patriot Express lender. I was pleasantly surprised and pleased at the number of approved

Patriot Express lenders, yet realized there were several I wished I could have included on the list that were not there. If you desire to become an approved Patriot Express Lender and/or an Express lender please contact either our district office or branch office.

Resources for small businesses can be challenging to come by during difficult times. Our resource partners, the Small Business Development Centers, SCORE and the Women's Business Center are there to assist your small business customers with the technical assistance they need. Their counseling services are free. Please encourage your customers to avail themselves of these valuable resources.

Sincerely



Joseph M. Folsom
District Director

SBA "TIPS AND TIDBITS"

Jumpstart Iowa

Encourage your customers who are homeowners and businesses that were affected by this past summer's disasters to check out the Jumpstart Iowa Recovery Initiative.

The Jumpstart Iowa Recovery Initiative is a housing and economic development program developed to address the financial needs of Iowans affected by the 2008 storms, flooding and tornadoes.

The Initiative contains two programs: one to address housing needs in storm-impacted communities, and one to help small businesses damaged by this year's severe weather.

For details, go to
www.rio.iowa.gov/resources/jumpstart.html

SBA Makes Changes to Help Lending Partners Continue Flow of Capital

Over the past month, senior leaders at SBA have been talking to small businesses and lending partners that have been hurt by the “freezing” of the secondary market. These conversations helped to identify the issues that are slowing down the flow of capital and to craft solutions that will help make credit more available to small businesses.

As part of these efforts, SBA has recently issued an interim final rule adding an additional base rate option, the LIBOR (London Interbank Offered Rate) for new SBA loans, and adding flexibility to the secondary market for SBA guaranteed loans through Weighted Average Coupon (WAC) pools.

One problem mentioned frequently in the current economy is the disruption in the rates banks charge each other for overnight lending, reflected in the London Interbank Offered Rate (LIBOR). In the past 60 days, this rate has sharply increased, making funds more expensive. This rate increase affects SBA lending, because it makes lending more expensive for banks.

Most SBA loans are currently priced at a spread over Prime. However, many financial institutions and investors in the secondary market for SBA loans and guarantees have a cost of funds that are partially or completely LIBOR based. Usually, LIBOR and Prime track very closely together, with about a 300 basis point difference between the rates.

In the past 60 days, the prime rate has actually decreased while LIBOR has increased. While interest rate decreases are supposed to make capital less expensive and help generate demand for lending, this time, the mismatch between the rates

is squeezing lenders out of the lending market, since their costs are based on LIBOR.

Since this squeeze is currently reducing small business access to capital, SBA needed to address this issue quickly by allowing lenders the option of using the LIBOR rate as an additional base rate for new SBA loans. By creating a way for loans to be made that are in line with costs, lenders will be able to resume lending to many more small businesses getting them the capital they need.

Another issue frequently raised in the current economic environment is liquidity – or the ability to quickly convert assets into cash without taking a price hit. At the same time that lending is becoming more expensive, the secondary market for SBA guaranteed loans – where lenders sell their loans to investors – was slowing down.

Typically, over 40% of disbursed SBA dollars are sold into the secondary market, which provides an important source of liquidity for some lenders. Recent disruptions in the financial markets have made the secondary market a less profitable option for both investors and lenders. The recent mismatch between cost of funds (based on LIBOR) and SBA loan interest rates (based on Prime) led to both less loans being made and less demand for those loans from investors facing similar issues.

Together this means a market with less supply and less demand. Investors aren’t buying at historical premium levels and lenders are less willing to sell their loans at the lower prices offered by investors. Typical secondary market premiums in 2007 were 108. Currently, premiums are down to 101. At these rates, selling

loans is not profitable, so activity on the secondary market has sharply contracted.

SBA loans are usually sold in the secondary market by grouping them into pools. Currently, the demand for pools of SBA loans is down and the premiums for loans are declining. Previously, all loans in a given pool had to have the same interest rate. With this program change, SBA is allowing a new kind of pool, Weighted Average Coupon (WAC) pools, to be assembled and sold on the secondary market for SBA-guaranteed loans. For these pools, the coupon rate fluctuates based on the weighted average interest rate of all of the loans in the pool.

Allowing greater flexibility in loan pool structures can help affect profitability and liquidity in the secondary market for SBA loans, especially in the current market. WAC pools can help expand the secondary market for SBA Guaranteed loans by generating savings for assemblers and providing higher premiums for lenders. Because the average interest rate is used, these pools are easier for pool assemblers to create, thus creating incentives for more investors to bid on these loans.

Both the LIBOR and WAC pool changes are effective immediately and SBA will be working on providing lenders with additional guidance (*see the attached Information Notice for more information on LIBOR base rates*). If you have questions about the LIBOR and WAC pool changes, please contact Vern Sample, Lead Lender Relations Specialist, in the Des Moines District Office at (515) 284-4554.

Lenders to Begin Using New 7(a) and 504 Authorization Wizard Version

SBA is replacing Version 2007.1 of the National 7(a) Loan Authorization Boilerplate and Wizard and Version 2008 of the National 504 Loan Authorization Boilerplate and Wizard with Version 2009. 7(a) and 504 Authorizations prepared by SBA will now be using Version 2009.

7(a) lenders and CDCs may access and review Version 2009 of the Authorizations by going to www.sba.gov/banking, and clicking on the Authorizations hyperlink or

by going directly to the link at www.sba.gov/aboutsba/sbaprograms/elending/authorizations/

CDCs that prepare 504 Authorizations and delegated 7(a) lenders that prepare Authorizations (except authorizations prepared under Express procedures) need to begin using Version 2009 on December 1, 2008

Version 2009 of the 504 Wizard is compatible with Word 2003 and

will operate in Word 2000 and Word 2002. **However, Version 2009 of the Wizard is not compatible with Word 2007..**

Questions regarding the 7(a) Authorization should be submitted to the 7(a) Authorization e-mail box at Auth-7a@sba.gov and questions regarding the 504 Authorization should be submitted to the 504 Authorization e-mail box at Auth-504@sba.gov.

SBA Lender Activity Report for October

LENDER NAME	LOCATION	#	AMOUNT	LENDER NAME	LOCATION	#	AMOUNT
US BANK	IOWA	9	\$2,241,100	ECIA BUSINESS GROWTH INC.	DUBUQUE	1	\$438,000
FIRST AMERICAN BANK	FT. DODGE	7	\$3,830,000	FIRST NATL BANK OF FARRAGUT	SHENANDOAH	1	\$400,000
HILLS BANK AND TRUST CO.	HILLS	5	\$560,000	CITIZENS STATE BANK	WAUKON	1	\$383,000
IOWA BUSINESS GROWTH CO.	JOHNSTON	2	\$572,000	LANDMANDS NATIONAL BANK	AUDUBON	1	\$300,000
FARMERS STATE BANK	MARION	2	\$234,000	BANKIOWA	CEDAR RAPIDS	1	\$161,000
SIOUXLAND ECON. DEV. CORP.	SIOUX CITY	2	\$214,000	FIRST CENTRAL STATE BANK	DE WITT	1	\$150,000
NORTHWEST BANK	SPENCER	2	\$213,700	GATEWAY STATE BANK	CLINTON	1	\$150,000
LIBERTY BANK FSB	WDM	2	\$165,000	CITIZENS STATE BANK	MONTICELLO	1	\$130,000
COMMUNITY STATE BANK	INDIANOLA	2	\$103,000	WEST BANK	WDM	1	\$130,000
KERNDT BROTHERS SVGS BANK	LANSING	1	\$1,409,100	SMALL BUSINESS GROWTH COR	ILLINOIS	1	\$89,000
FIRST IOWA STATE BANK	ALBIA	1	\$1,250,000	NORTHWOODS STATE BANK	MASON CITY	1	\$85,000
CEDAR RAPIDS BANK AND TRUST	CEDAR RAPIDS	1	\$1,050,000	PAGE COUNTY STATE BANK	CLARINDA	1	\$70,000
ELGIN STATE BANK	ELGIN	1	\$600,000	AMERICAN TRUST & SVGS BANK	DUBUQUE	1	\$65,500
AMERICAN BANK	LE MARS	1	\$532,750	DUTRAC COMMUNITY CU	DUBUQUE	1	\$60,000
BLACK HAWK ECON. DEV. COMM.	WATERLOO	1	\$513,000	WELLS FARGO BANK	IOWA	1	\$25,000
CHARTER BANK	JOHNSTON	1	\$450,000	DUPACO COMMUNITY CU	DUBUQUE	1	\$20,000

The following lenders were participant lenders in the SBA's 504 Loan Program in Iowa during the month of October

LENDER NAME	LOCATION	#	AMOUNT	LENDER NAME	LOCATION	#	AMOUNT
BANKERS TRUST	CEDAR RAPIDS	1	\$626,250	DUTRAC COMMUNITY CU	DUBUQUE	1	\$251,206
FARMERS STATE BANK	COLORADO	1	\$363,000	PRIME BANK	SIOUX CENTER	1	\$143,000
FARMERS STATE BANK	MARION	1	\$333,500	PEOPLES BANK	ROCK VALLEY	1	\$130,000
DUPACO COMMUNITY CU	DUBUQUE	1	\$278,000	NORTHWEST BANK & TRUST	DAVENPORT	1	\$105,000



SBA Information Notice

TO: All SBA Employees

CONTROL NO.: 5000-1082

SUBJECT: Implementation of SBA's Addition
of LIBOR Plus 3 Percent as a Base
Rate

EFFECTIVE: 11/20/2008

On November 13, 2008, SBA published an interim final rule that changed the definition of "base rate" set out in 13 CFR 120.214(c) to allow a new optional base rate: One Month LIBOR plus 3 percentage points ("LIBOR Base Rate"). On November 14, 2008, SBA issued Procedural Notice 5000-1081 to explain the addition of the LIBOR Base Rate.

In addition to adding a new base rate, under the revised regulation, the base rate in effect on the first business day of the month will determine the basis for the initial interest rate for any loan application received by SBA during that month. (Historically, the initial interest rate was determined as of the date the loan application was received by SBA.)

As a result of these changes, SBA has revised the relevant loan application forms as well as the Loan Authorization to accommodate the new LIBOR Base Rate. SBA Form 1920SX - Part B (Supplemental Information for SBA Express, Pilot Loan Programs and PLP Processing), SBA Form 2238 SBA Express/Patriot Express Guaranty Request (Eligibility Authorized), and SBA Form 2301 (Part B) (Lender Advantage Initiative – Lenders Application for Guaranty) have replaced "P + ____" with the following data requirements. (SBA Form 4-I, Lender's Application for Guaranty or Participation, already has a space in which to identify the optional base rate.)

<input type="checkbox"/> Prime rate*	= _____	+ Spread _____	= Loan Interest Rate: _____
<input type="checkbox"/> LIBOR *(1 month) + 3.0%	= _____	+ Spread _____	= Loan Interest Rate: _____
<input type="checkbox"/> SBA Peg Rate	= _____	+ Spread _____	= Loan Interest Rate: _____

*Rate in effect on first business day of month as identified in a national financial newspaper or website.

For example, if an application is received by SBA in November of 2008 (on or after the effective date of Notice 5000-1081), the following would be the applicable base rate options:

Prime: 4.0 % (as in effect on the first business day of November)

LIBOR: 2.36 % (as in effect on the first business day of November) + 3.0 % = 5.36

SBA Peg Rate: 4.63 % (as in effect for the period between October 1, 2008 and December 31, 2008)

The applicable loan interest rate would then be the "base rate + the spread."

As noted in Notice 5000-1081, these changes are applicable to 7(a) loan applications that lenders may currently have internally in process, but they are not applicable to loan applications that have already been received by SBA or loan applications that have been approved by SBA. As a result, lenders cannot change the base rate of an existing SBA-guaranteed loan through a servicing action.

SBA field offices should advise lenders of these changes.